

Second Annual  
Progress Report

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IAC-D-53/5  
16 September 1954

INTELLIGENCE ADVISORY COMMITTEE

Second Annual Progress Report of the  
Intelligence Working Group  
1 July 1953 - 30 June 1954

The Second Annual Progress Report of the Intelligence Working Group (IWG), circulated herewith for noting, will be placed on the agenda of the 28 September meeting of the IAC.

25X1A9a

  
Secretary

IAC-D-53/5  
16 September 1954

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SECOND ANNUAL PROGRESS REPORT OF THE  
INTELLIGENCE WORKING GROUP

1 July 1953 - 30 June 1954

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IWG/R-19  
Control No. 2058  
1 September 1954

SECOND ANNUAL PROGRESS REPORT OF THE  
INTELLIGENCE WORKING GROUP

1 July 1953 - 30 June 1954

I. Responsibilities of the IWG

Within its Terms of Reference, the Intelligence Working Group (IWG) <sup>1/</sup> is responsible for arranging the mobilization of intelligence resources and data relevant to needs of the Economic Defense Advisory Committee (EDAC), for recommending to appropriate agencies collection requirements designed to fill specific gaps, and for providing EDAC with both coordinated intelligence reports and "spot" intelligence. The following provides a report on IWG activities and accomplishments during the period 1 July 1953 to 30 June 1954, and a statement on IWG problems and objectives.

II. IWG Activities and Accomplishments

A. Mobilization of Intelligence Resources and Data

The IWG continued to provide the sole interagency forum where the action agencies engaged in the economic defense program meet with representatives of CIA, ONI, AFOIN, G-2 and OIR/State to mobilize the intelligence resources of the Government for the support of the economic defense program. (Tabs A, C, and D indicate the wide range of IWG activities and interests.) The IWG thus serves as the focal point of government-wide intelligence support at the working level for EDAC and

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<sup>1/</sup> The IWG was established at the request of the Director of Mutual Security and the Secretary of State, and with the approval of the Director of Central Intelligence and the Secretary of Defense. Its Terms of Reference were approved by the IAC on 25 July 1952 (IAC-D-53/1, as amended). For further details, see IWG/R-13, "First Annual Progress Report of the IWG".

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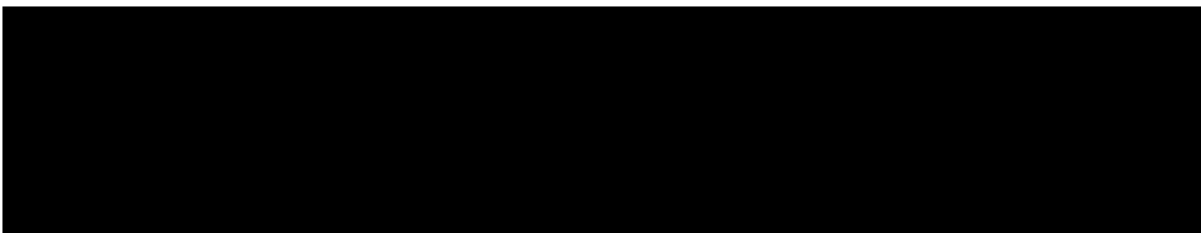
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its member agencies. This mobilization function included the preparation and distribution for use of member agencies of an IWG Commodity Analysis Checklist to facilitate analysis of the best available intelligence; the adoption of new procedures for the production and coordination of commodity studies; and an effort to elicit more adequate intelligence on military uses of commodities in connection with the recent comprehensive review of the international security lists.

An IWG subgroup was appointed, under chairmanship of a Treasury representative, to study and report upon the needs for and the adequacy of intelligence on external financial operations of the Soviet bloc. Its findings were incorporated in an IWG report which was furnished to the EDAC Executive Committee for appropriate action and to the Economic Intelligence Committee for information.

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B. Production of Coordinated Intelligence

1. Intelligence Support to Security List Review - One of the major tasks of the IWG during the past year was the production of coordinated intelligence on the strategic importance of particular commodity items to the war potential of the Soviet bloc. The IWG provided the principal support channel to the Joint Operating Committee in this respect prior to the acceleration of the security list review. Of 14 studies produced by the IWG, 10 provided information required by the EDAC-ACEP structure in determining the strategic rating of specific commodity items (see Tab A). Intelligence provided through the IWG supplemented technical information furnished by the Department of Commerce technical task groups.

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2. Appraisal of Soviet Trade Tactics - During this period the intelligence community was called upon to provide intelligence analyses required at the policy planning level on the significance of Soviet offers of strategic materials to the West and the implications of the "New Course" in the domestic economies of the several countries of the Soviet bloc.

Also, the Consultative Group (CG) in Paris in April 1954 agreed that, in light of the then current expansion as compared with previous low levels of trade between the Soviet bloc and the Free World, it would be desirable to devote increased effort and attention to the detection and analysis of any changes in Soviet trade tactics generally. This surveillance was deemed necessary to take account of developments likely to affect the operation of strategic export controls and to enable Western countries to counter Soviet economic and political penetration.

In anticipation of need for work in this field the IWG as early as September 1953 gave consideration to undertaking an interagency study on the Soviet trade offensive. An IWG case on "Proposed Study of Soviet Trade Activities and Tactics in Non-COCOM Areas" was drafted in that month, but work was not commenced due to the preoccupation of member agencies with a related intelligence study, NIE 10-54, "Soviet Capabilities for Economic Warfare." The IWG endeavored at intervals to elicit guidance from the Executive Committee as to its intelligence requirements on this subject. The matter was considered at no less than seven meetings during the period September 1953 - June 1954, and a bibliography of 45 articles on changing Soviet trade and economic policy was circulated in May 1954. These discussions in the IWG, together with papers on various facets of the Soviet trade problem prepared in State, Treasury and MDAC, served as the basis of a paper prepared by MDAC for submission to COCOM pursuant to the CG agreement to discuss Soviet trade trends and tactics. An IWG report appraising the significance of Soviet offers to the West of manganese, chrome, platinum and palladium, and a CIA paper on Soviet petroleum offers was furnished to EDAC.

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With respect to the consumer goods problem the IWG was requested to submit for EDAC consideration a list of non-strategic consumer goods having certain characteristics which would make them appropriate for licensing to the European satellites to decrease the political and economic unity of the Soviet bloc. Through the aegis of the IWG, a CIA study on the availability of consumer goods in the Soviet bloc was provided to the Executive Committee. It was the consensus of the IWG that the specific criteria for selection of goods for export would rule out most of the items or categories on the CIA list of consumer goods in short supply. The IWG also called attention to the internal benefits to the Soviet regime at that time of increasing the availability of consumer goods through imports from the West.

C. Spot Intelligence Contributions

The IWG has continued to furnish EDAC agencies with significant items of current intelligence (see Tab B.) Through its representatives on the IWG, the Office of Naval Intelligence continued to contribute significant items of current economic defense intelligence to the EDAC. Seventeen items covering generally the movement of specific vessels and/or the diversion of strategic commodities to Soviet bloc destinations were submitted by ONI during the year.

D. Strategic Trade Intelligence Support to Action Agencies

Intelligence support to action agencies on strategic trade diversions is the responsibility primarily of the Strategic Trade Branch in CIA, ORR. As reported in the First Annual Report of the IWG, this operation was organized in response to the recommendations of the IWG that an intelligence unit should be organized in CIA to provide intelligence for the implementation and enforcement of free world economic defense measures. The Strategic Trade Branch operates as a central facility to which intelligence on East-West trade transactions flows from all available sources, where these intelligence materials are collated, analyzed and evaluated, and from which timely intelligence on strategic trade transactions and/or diversions is transmitted to action agencies through the Diversion Control Net (DCN). The volume of operational support is indicated by the fact that during the year over 600 transactions cases and surveillances, the strategic significance of which had been established, were selected for further investigation by staff

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analysts. From these the DCN had docketed nearly 200 cases for action by the end of June 1954. To a limited extent, aggregative reports are prepared in response to requests of action agencies on transactions or diversions of strategic goods and on firms and individuals participating in such activities.

E. Intelligence Collection and Utilization

During the year the IWG renewed its efforts to establish a comprehensive pattern of U.S. Government requirements for the covert collection of economic defense information. Proposed instructions for lateral dissemination of East-West trade information in the field, prepared under IWG auspices, were prepared as a Department of State circular airgram. The American Embassy, Vienna, requested that the IWG suggest methods of compensating for the loss in intelligence which resulted from the abolition of censorship in Austria. Upon a review of the problem the IWG found there was no means available for compensating for the loss. On recommendation by the IWG steps were taken by MDAC, Defense, and State with CIA cooperation to exploit accumulated censorship material for the purpose of extracting pertinent information on diversions of strategic commodities to Soviet destinations. The IWG also reviewed, but reached no conclusions, on the Executive Committee request for a statement of recommendations for corrective action with respect to the problem of inadequate priorities for the collection of economic defense information (see Tab E) and undue delay in its transmission. The former Chairman of the IWG visited major Western European centers to brief overseas personnel regarding the utilization of economic defense intelligence in Washington, to obtain knowledge on the problems and facilities for collection of such intelligence, and to make recommendations for increasing and improving its collection and for lateral dissemination to posts overseas. His findings were incorporated in a report, "Survey of Collection of Economic Defense Information in Western Europe" which was distributed to the IWG and the Executive Committee.

III. Major Problems and Programs

A. Utilization of IWG Facilities - The tempo of IWG activity fluctuated widely during the report period. The severe decline during the second half of the year, reflected in the initiation of only three cases compared to twenty during the July - December 1953 period, can be

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traced primarily to the preoccupation of member agencies with the accelerated security list review, and to the placing by EDAC of few requests upon the IWG. Basic to this situation is the fact that intelligence research within the U.S. Government is not oriented in a manner to provide a quick response to the needs of the economic defense program. Intelligence support could be substantially improved if the Executive Committee would undertake, in collaboration with the IWG, advance programming and planning of EDAC intelligence needs. The intelligence agencies then would be enabled to gear their research program so as to aid in meeting the primary needs of the EDAC.

To stimulate the continued use of the IWG as the agreed mechanism of intelligence support, special summaries of IWG activities were published in January, March, and May. These directed the attention of the IWG and Executive Committee members to specific problems of economic defense on which the IWG had an intelligence support responsibility.

B. Program for Coming Year

IWG activities during the year ahead, as during the review period, will be guided by NSC 152/3. This statement of U.S. policy in the economic defense field placed increased emphasis on improving the availability and utilization of current intelligence in matters relating to enforcement of free world controls, and in developing ancillary measures to improve implementation and enforcement of agreed controls.

With the substantial completion of the security list review by the end of June 1954, EDAC has indicated a renewed interest in the utilization of IWG facilities. MDAC has already requested the IWG to: recommend the establishment of suitable mechanisms and surveillance techniques to trace the movement of the strategic items decontrolled during the COCOM negotiations; assemble and assess the adequacy of all intelligence contributions furnished the Joint Operating Committee during the list review so as to make available a "known universe" of commodity intelligence from which further analysis can proceed; develop additional intelligence on the subject of Soviet trade trends and tactics as a basis for preparation of papers to be submitted to the fall session of COCOM.

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In connection with interagency planning for the conduct of economic warfare in time of war, the IWG may be called upon to undertake a study of the intelligence support that would be required. Advance consideration by the intelligence community as to the support which would be required by action agencies in the event of war is highly desirable.

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Chairman  
Intelligence Working Group

D/E/RR:JAG:gg (1 September 1954)  
CIA/RR (IWG Secretariat)

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TAB A

List of All IWG Completed Studies

1 July 1953 - 30 June 1954

<u>Designation</u>	<u>Title</u>	<u>Date Issued</u>
IWG/R-7	Soviet Bloc Kyanite Position	24 July
IWG/R-8	Examples of the Role of Swiss Banks in Financing of East-West Trade Since 29 August 1952	5 August
IWG/R-9	The Tractor Situation in the Soviet Bloc	21 August
IWG/R-10	Strategic Importance of Magnetic Recorders and/or Reproducers to the Soviet Bloc	9 September
IWG/R-11	Movement of Scrap Metal from the Middle East - 1952	9 September
IWG/R-12	Soviet Bloc Position in Steel Wire, Strand, Cable and Rope	18 September
IWG/R-13	First Annual Progress Report of the IWG, August 1952 - July 1953	18 September
IWG/R-14	Appraisal of Soviet Offers of Chrome, Manganese, Platinum and Palladium to the United States	20 October
IWG/R-15	Indications of Soviet Bloc Vulnerability to Western Controls on Primary Aluminum	10 February
IWG/R-16	Final Report and Recommendations of the IWG Subgroup on External Financial Operations of the Soviet Bloc	11 March

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## TAB A (Cont'd)

<u>Designation</u>	<u>Title</u>	<u>Date Issued</u>
IWG/R-17	Strategic and Security Implications Involved in the Proposed Shipment to the USSR of Marconi Television Transmitter (50 KW, 40-70 Mc/S)	11 March
IWG/R-18	Strategic Importance of Magnesium to the Soviet Bloc	12 March
IWG/ID-5	COCOM Review of IL-II Items: Information on Part A - Chemicals	30 September
IWG/ID-15	Indications of Soviet Bloc Vulnerability to Controls of West-East Movement of Boron Compounds	24 November
IWG/ID-25	Soviet Bloc Exports of Petroleum and Petroleum Products to the Free World	18 March
IWG/WP-2	Intelligence Collection and Analysis Required for a Study of the Soviet Automotive Situation	16 July
IWG/WP-5a	Draft Transmittal to USDEL for Use in COCOM of CIA Paper on "The Strategic Use Pattern of Lead in the Soviet Bloc"	28 October
IWG/WP-5b	Revised Draft Working Paper on "The Strategic Use Pattern of Lead in the Soviet Bloc"	5 November
IWG/WP-5b Attach. I	Differences in Specific Estimates between IWG Paper and AFOIN	27 November
IWG/AM-17	The Problem of Providing Intelligence for Licensing Consumer Goods to European Satellites	2 December

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## TAB B

List of All Information Documents Distributed

1 July 1953 - 30 June 1954

<u>Designation</u>	<u>Title</u>	<u>Date Issued</u>
IWG/ID-2	ONI Contribution - Information on "Voyage of Russian Mer ship PJATIGORSK to Communist China"	9 September
IWG/ID-3	ONI Contribution - Information on "Charter of Greek Flag Merchant Ship KASSOS"	15 September
IWG/ID-4	Transmittal of Report on "Survey of Collection of Economic Defense Information in Western Europe"	23 September
IWG/ID-6	Transmittal of Information on "East-West Trade Activities of Felix Fusco"	12 October
IWG/ID-7	Transmittal of State Circular Airgram on "Lateral Dissemination of Intelligence Information"	12 October
IWG/ID-8	Transmittal of Documents Provided by Military Intelligence Agencies on the Antibiotics Situation in Communist China 25X6A	23 October
IWG/ID-9	<div style="background-color: black; width: 100%; height: 30px;"></div>	27 October
IWG/ID-10	Transmittal of Information Document on "Tetra-ethyl Lead (TEL) for National Iranian Oil Company"	2 November
IWG/ID-11	Transmittal of ONI Information on "Unreliability of Manifest Information Used in the Implementing of Cargo Controls"	2 November

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## TAB B (Cont'd)

<u>Designation</u>	<u>Title</u>	<u>Date Issued</u>
IWG/ID-12	25X6A [REDACTED]	2 November
IWG/ID-13	Transmittal of ONI Information on "Charter Clause for China Trade Vessels Prohibits Japanese or American National in Crews"	2 November
IWG/ID-14	Transmittal of ONI Information on "Merchant Ship Construction for Communist China"	6 November
IWG/ID-16	Transmittal of ONI Information on "Shipment of Strategic Goods to Communist China through Efforts of Hong Kong Commercial Interests" 25X6A	25 November
IWG/ID-17	[REDACTED]	25 November
IWG/ID-18	Transmittal of ONI Information on "Evasion of Bunker Controls"	14 December
IWG/ID-19	Transmittal of ONI Information on "The Importance of Tankers to the Soviet Bloc"	14 December
IWG/ID-20	Report on Status of Consumers' Goods List	24 December
IWG/ID-21	ONI Information Document on "Possible Shipment of Silicon Steel to Communist China"	22 January
IWG/ID-22	The IWG Commodity Check List and the New Attributes and Standards	26 January
IWG/ID-23	Bibliography of Intelligence Studies on Changing Soviet Trade and Economic Policy	27 January
IWG/ID-24	ONI Contribution - Information on "Shipment of Copper Wire from Beirut, Lebanon to Communist China"	11 March

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TAB B (Cont'd)

<u>Designation</u>	<u>Title</u>	<u>Date Issued</u>
IWG/ID-26	Unevaluated Intelligence Report on "Effect of Western Controls on the Hungarian Economy"	24 March
IWG/ID-27	ONI Contribution - Subversion of East-West Trade Controls	7 April
IWG/ID-28	ONI Contribution - Conspiracy to Evade Controls on Shipments of Strategic Material to the Soviet Bloc	12 May
IWG/ID-29	ONI Information on "Norwegian Vessels Sold to Soviet Bloc"	12 May
IWG/ID-30	ONI Contribution - Information on M/S ALFHEM	21 May
IWG/ID-31	ONI Contribution - Information on "Dutch Shipyard Delivers Cargo Vessel to Russia"	2 June

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TAB C

List of Cases Closed, Other than by Completed Study

1 July 1953 - 30 June 1954

<u>Designation</u>	<u>Title</u>
Case 21	Diversions of Korean Scrap to Communist Destinations
Case 22	Western Repair and Construction of Merchant Vessels for Soviet Bloc
Case 26	Bunkering of Vessels in China Trade
Case 28	N.V. Philips Company, Eindhoven, Netherlands
Case 31	EDS Request for Technical Analysis of Repairs to Soviet Vessels in Port of Antwerp, 1949-1952
Case 40	Reported Movement of Rails from Antwerp, Belgium to Constantza, Rumania, by Costa Rican, Turkish and Italian Vessels
Case 41	Dissemination of Economic Defense Intelligence in the Field
Case 45	Soviet Efforts to Procure Aircraft Parts and Components
Case 46	Strategic Importance of Dichlorodifluoromethane (Freon 12) to the Soviet Bloc
Case 49a	Diversions to the Soviet Bloc of Strategic Materials
Case 52a	Pharmaceuticals: Soviet Bloc Supply Position in Antibiotics and Sulfanomides
Case 57a	The Bearings Situation in the Soviet Bloc; Production, Requirements, Trade and Application

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TAB C (Cont'd)

<u>Designation</u>	<u>Title</u>
Case 58	Soviet Bloc Strategic Uses of Coaxial Cable
Case 59	Vulnerability of the Soviet Bloc to a Reduction of Mercury Imports from the West
Case 64, S.1	Inventory of Information Regarding Importance of Maritime Traffic to the Soviet Bloc Economy
Case 67	Excess Bunkering in Western European Ports of Vessels Trading with the European Soviet Bloc
Case 68	Non-Strategic Consumer Goods Suitable for Export to European Satellites
Case 73	The Metalworking Machinery Situation in the Soviet Bloc
Case 74	Phenol: Uses and Availabilities in the Soviet Bloc
Case 75	Indications of Soviet Bloc Uses and Supply of Titanium Ores

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TAB D

Cases Pending, 30 June 1954

<u>Designation</u>	<u>Title</u>
Case 7	Collection Requirements on East-West Trade
Case 36	Intelligence Data for U.S. Delegate to CHINCOM
Case 56	Proposed Study of Soviet Trade Activities and Tactics in Non-COCOM Areas
Case 62	Intelligence Support for U.S. Delegation to Eighth General Assembly of the United Nations, and other International Forums

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TAB E

PROBLEMS OF INTELLIGENCE COLLECTION AND UTILIZATION

I. Production of IWG Reports

A. To maximize intelligence support to the security list reviews undertaken in connection with COCOM negotiations, a new procedure was adopted in July 1953 to supersede the previous arrangement under which the Office of International Trade (later Bureau of Foreign Commerce) had assumed responsibility for combining intelligence contributions from various agencies and writing a single paper containing technical definitions, intelligence and strategic rating recommendations. The new procedure provided for the preparation within the IWG of a paper incorporating intelligence on Soviet bloc uses, production capabilities and shortages, with a second paper containing technical information only being prepared in BFC. This procedure resulted in a marked improvement in the intelligence product and was utilized until the accelerated security list review in the spring of 1954 made IWG processing of commodity paper impracticable.

B. During the recent Trilateral and CG/COCOM review of the security lists, the following criteria were used in placing items on embargo: Materials and equipment (1) designed specially or used principally for development, production or utilization of arms, ammunition, implements of war and atomic energy materials; (2) which incorporate advanced technology or unique know-how, the acquisition of which may reasonably be expected to permit a significant advance in Soviet bloc technology in military or atomic energy production over the level of development already achieved or expected to be achieved within a short period; and, (3) in which the Soviet bloc has a deficiency which is critical in relation to its military capabilities and which it could not overcome within a short period. An item could be placed on international embargo only if one of the above criteria were met. It was essential, therefore, that information pointing up the direct, or close indirect, military application of particular commodities be made available to the U.S. Delegation. Discussions were held between representatives of the military services and the Chairman, IWG, and immediate steps were agreed upon to elicit additional information of this nature.

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C. A related problem in the production of commodity analyses has been that of obtaining approval for release of information for use in negotiations with foreign nationals. This problem applies to all intelligence, but particular difficulty is encountered in the case of intelligence falling within the category of "classified military information." A series of meetings were held, therefore, with military members of the IWG to discuss the application of SD-MICC policy governing the release of military information to foreign nationals. It was agreed that the kind of information (prepared for use in COCOM) generally found in IWG papers which had originated with the military services was primarily of economic nature and as such could not be termed military intelligence per se; in such cases the release of such information was considered beyond the jurisdiction of SD-MICC. There is no legal basis for the disclosure of military information classified CONFIDENTIAL or higher without an exception, and certain of the military services are reluctant to grant an exception to the national disclosure policy in order to release such information to COCOM.

Because of this reluctance an effort was made to acquaint military security officers with the facts that (1) the utilization of classified military information is for the purpose of obtaining a quid pro quo in the form of restrictions of strategic exports, and (2) inability to use such information would impede attainment of the objectives of U.S. economic defense policy.

D. It developed during the year that responsibility for production of IWG studies fell principally on CIA with other member agencies making comment or providing additional intelligence on a limited basis. Of the eighteen IWG studies completed during the review period, CIA initiated and completed 14. IWG subgroup prepared three, with the other being a joint product of CIA and OIR. Written comments on draft IWG working papers were received only from the FOA and AFOIN representatives.

## II. IWG Efforts to Increase Intelligence Collection

IWG discussions revealed that an underlying cause for inadequate intelligence to serve the needs of EDAC was (and continues to be) the absence of priority for covert collection of this type of intelligence.

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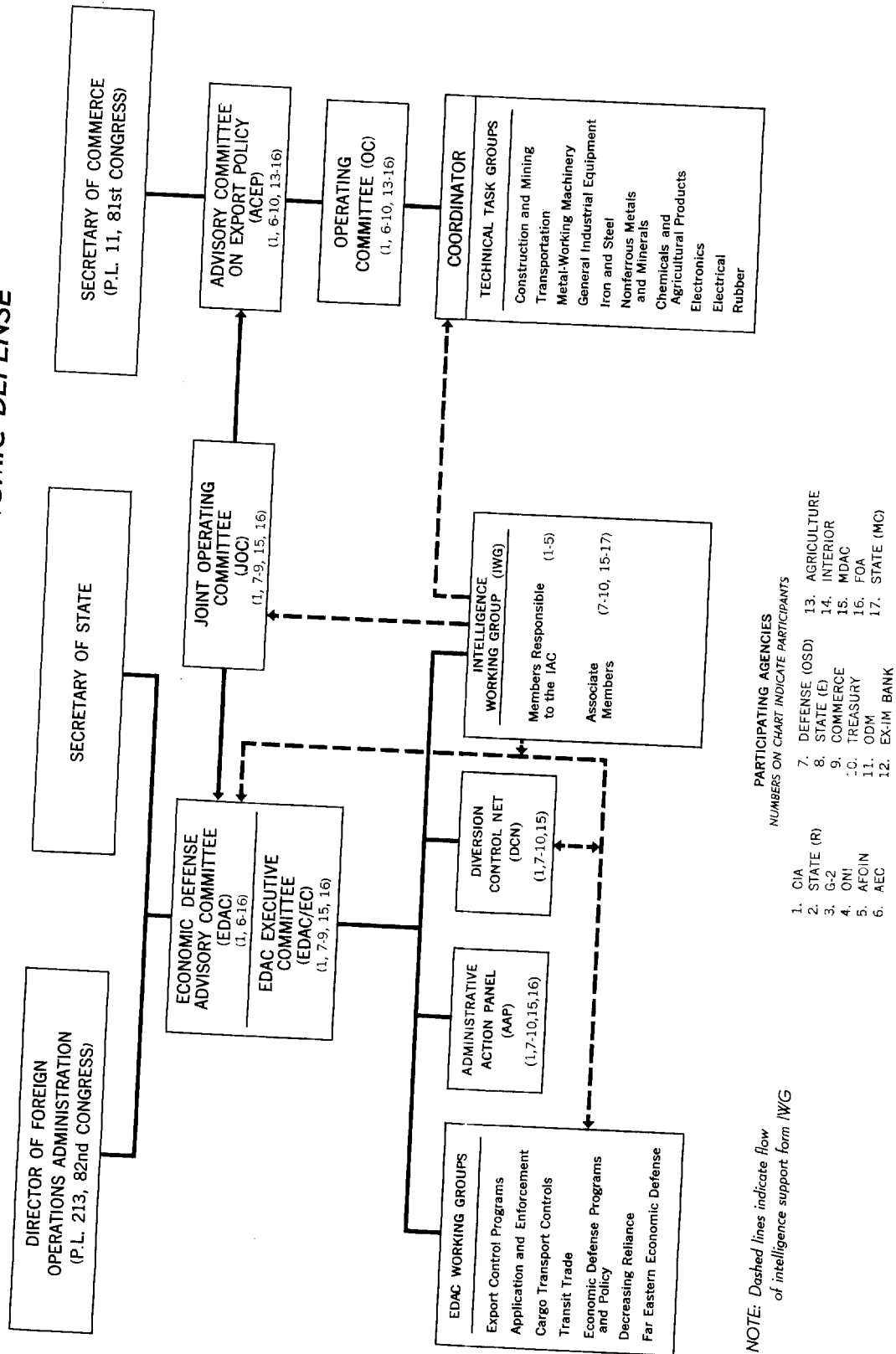
It is believed that Objective No. 8 of Priority List of Critical National Intelligence Objectives (IAC-D-50/2) could be used as the basis for an intensified effort to collect economic defense information, but an interpretive statement to this effect would be needed. Improved intelligence collection is an urgent matter in terms of the needs for information required to implement NSC 152/3.

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# INTELLIGENCE SUPPORT FOR ECONOMIC DEFENSE



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